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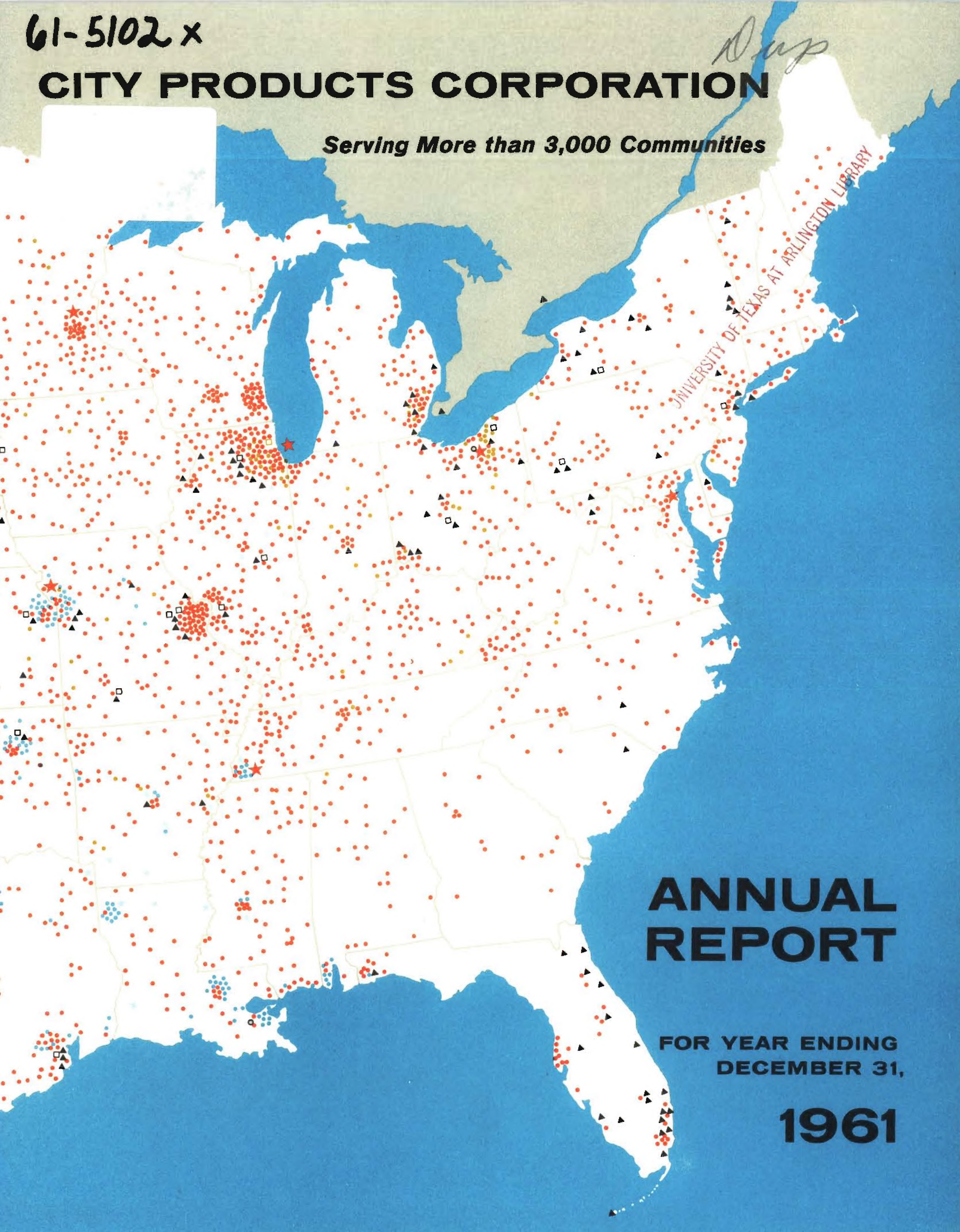
CITY PRODUCTS CORPORATION

Serving More than 3,000 Communities



ANNUAL REPORT

FOR YEAR ENDING
DECEMBER 31,

1961

CITY PRODUCTS CORPORATION

Executive Offices: 33 South Clark Street
Chicago 3, Illinois

DIVISIONS

BEN FRANKLIN STORES

•

T G & Y STORES

•

SCOTT STORES

•

BUTLER BROTHERS DEPARTMENT STORES

•

HERST-ALLEN

•

REFRIGERATION
AND COLD STORAGE

•

MIDWEST DAIRIES

•

BREWERIES

TRANSFER AGENTS:

City Products Corporation, Chicago, Illinois, and Cleveland, Ohio

The Chase Manhattan Bank, New York

REGISTRARS:

The First National Bank of Chicago

Chemical Bank New York Trust Company, New York

Common Stock listed on New York and Midwest Stock Exchanges
Convertible Subordinated Debentures listed on New York Stock Exchange

67 Years of Consecutive Dividends

DIRECTORS

WILLIAM J. SINEK, Chairman

CHARLES AARON
GEORGE E. ALLEN
HUGO A. ANDERSON
WILBUR F. ASBURY
A. R. CARLSON
HENRY CROWN
WILLIAM J. FROELICH
FRANK J. MANHEIM
EMIL SCHRAM
J. H. SCHWARTEN
A. O. STEFFEY
HARRY E. STRONG
R. A. YOUNG
W. F. ZEIDLER

EXECUTIVE COMMITTEE

WILLIAM J. SINEK, Chairman

CHARLES AARON
HUGO A. ANDERSON
HENRY CROWN
FRANK J. MANHEIM
J. H. SCHWARTEN
A. O. STEFFEY

CORPORATE OFFICERS

WILLIAM J. SINEK.......................................Chairman
A. O. STEFFEY ....President and Chief Executive Officer
J. H. SCHWARTEN.......................Vice President and Treasurer
MILTON A. KOLAR.......................................Secretary
E. P. ELLENBERGER ....Controller
E. L. GALLOWAY ....General Auditor

WILBUR F. ASBURY.................................Vice President
General Manager, Western Division, Refrigeration and Cold Storage
J. E. BRIGGS.....................................Vice President
A. R. CARLSON....................................Vice President
President, Refrigeration and Cold Storage Division
LOUIS F. GARRARD.................................Vice President
President, Brewery Division
L. D. JALKUT.....................................Vice President
Merchandise Manager, Butler Brothers Division
L. L. McCOY......................................Vice President
D. J. MULVIHILL.............Vice President and Assistant to the Chairman
H. E. STRONG.....................................Vice President
President, Midwest Dairy Division
E. O. WACK.......................................Vice President
General Manager, Ben Franklin Division
R. A. YOUNG......................................Vice President
President, T. G. & Y. Stores Co.
W. F. ZEIDLER..................Vice President and Assistant Treasurer

GENERAL COUNSEL

CHARLES AARON.................Vice President and General Counsel

INDEPENDENT PUBLIC ACCOUNTANTS

ARTHUR ANDERSEN & CO.

CITY PRODUCTS CORPORATION

Notice of Annual Meeting of Shareholders

Chicago, Illinois
March 15, 1962

To the Shareholders of
CITY PRODUCTS CORPORATION:

Notice is hereby given that the Annual Meeting of Shareholders of City Products Corporation will be held at its office, 3912 Prospect Avenue, Cleveland, Ohio, at ten o'clock A. M. (Eastern Standard Time) on Thursday, the 19th day of April, 1962, for the following purposes:

(1) To elect fifteen (15) directors;

(2) To act upon a proposal to amend Article V of the Code of Regulations effective upon adoption, to expedite replacement of lost, stolen or destroyed common share certificates; and

(3) To transact such other business as may properly come before said meeting or any adjournment thereof.

Shareholders of record at the close of business on March 12, 1962, will be entitled to vote at the meeting. The transfer books will not be closed. For your convenience a form of proxy is enclosed. The management desires to have the maximum representation at the meeting and requests you to please date, sign and mail promptly the enclosed proxy in the enclosed envelope on which no postage is required if mailed in the United States. If you are present at the meeting and desire to do so you may withdraw your proxy and vote in person.

By Order of the Board of Directors

MILTON A. KOLAR
Secretary

PLEASE SIGN AND RETURN THE ENCLOSED PROXY

CITY PRODUCTS CORPORATION

Proxy Statement

ANNUAL MEETING OF SHAREHOLDERS, APRIL 19, 1962

This Proxy Statement is furnished to shareholders of City Products Corporation (below called the "Corporation"), in regard to the proxy enclosed with the notice of said Annual Meeting of Shareholders.

GENERAL INFORMATION: SHAREHOLDERS' VOTING RIGHTS

Said proxy is solicited by and on behalf of the management of the Corporation.

The shareholder giving the proxy has the power to revoke it.

A shareholder shall be entitled, at said meeting, to one vote for each share standing in his name on the books of the Corporation at the close of business March 12, 1962. It is provided by the law of Ohio, in substance, that if notice in writing shall be given by any such shareholder to the chairman, president, a vice-president, or the secretary of the Corporation, not less than forty-eight hours before the time fixed for holding a meeting for the election of directors, that he desires that the voting at such election be cumulative, and if an announcement of the giving of such notice is made upon the convening of the meeting, each shareholder shall have the right to cumulate his shares and to give one candidate as many votes as the number of directors to be elected, multiplied by the number of his shares, equals, or to distribute them on the same principle among as many candidates as he sees fit.

On March 8, 1962, there were outstanding and entitled to be voted at said meeting 2,814,370 common shares of the Corporation; the common stock is the only class of securities of the Corporation entitled to be voted at said meeting, and, as a class, was entitled to 2,814,370 votes as of said date.

ELECTION OF DIRECTORS: INFORMATION REGARDING NOMINEES AND DIRECTORS

The offices to be filled by election at said meeting are fifteen (15) directorships; the term of office of all directors is one year, and until their respective successors are elected and qualified.

The persons for whom it is intended that votes will be cast, pursuant to said proxies, for election as directors of the Corporation and the aggregate remuneration received during the calendar year 1961 by each director and each of the three highest paid officers of the Corporation who received in excess of $30,000 are as follows:

Name and Principal Occupation and Employment	*Served as Director Since*	*Shares of City Products Corporation beneficially owned directly or indirectly on February 1, 1962*	*Aggregate Remuneration*	*Estimated Annual Benefits Upon Retirement Under Pension Plan (A)*
Charles Aaron Partner, Aaron, Aaron, Schimberg & Hess, attorneys at law, Chicago, Illinois; Director of Drovers National Bank, Drovers Trust Savings Bank and other corporations	1957	6,120	See Note (G)	
George E. Allen Counsel, Alvord and Alvord, attorneys at law, Washington, D.C.; Director of Republic Steel Corporation; Member of Executive Board, Avco Manufacturing Corporation and director of other corporations	1952	2,244		
Hugo A. Anderson Director, General Dynamics Corporation, Union Asbestos & Rubber Co., and other corporations	1958	1,020		
Wilbur F. Asbury Vice President of City Products Corporation; General Manager of Western division, Refrigeration and Cold Storage division	1958	4,829		

Name and Principal Occupation and Employment	Served as Director Since	Shares of City Products Corporation beneficially owned directly or indirectly on February 1, 1962	Aggregate Remuneration	Estimated Annual Benefits Upon Retirement Under Pension Plan (A)
ANDREW R. CARLSON Vice President of City Products Corporation; President, Refrigeration and Cold Storage division	1955	3,672	$ 70,000	$20,140
HENRY CROWN Chairman, Material Service Division of General Dynamics Corporation; Chairman of Executive Committee and Director, General Dynamics Corporation; Vice President, Director and Member of Executive Committee, Hilton Hotels Corporation; Chairman of Finance Committee, Director and Member of Executive Committee, Chicago Rock Island and Pacific Railroad Company; Director, Hertz Corporation; also director of other corporations	1954	16,728		
WILLIAM J. FROELICH Partner, Froelich, Grossman, Teton and Tabin, attorneys at law, Chicago, Illinois; Director and Member of Executive Committee, Chicago, Milwaukee, St. Paul & Pacific Railroad Co. and Wisconsin Public Service Corporation	1952	744		
FRANK J. MANHEIM Partner, Lehman Brothers, Investment Bankers, New York	1960	See Note (F)		
EMIL SCHRAM Farmer, Peru, Ind.; Director, Cities Service Company, Corn Products Company, The Home Insurance Company and other corporations	1960	7,994		
J. H. SCHWARTEN Vice President and Treasurer, City Products Corporation	1960	14,615	57,500	17,734(C)
WILLIAM J. SINEK Chairman, City Products Corporation	1929	59,980(I)	100,000(E)	14,760
A. O. STEFFEY President, City Products Corporation	1960	50,678	100,000(B)	29,536(C)
HARRY E. STRONG Vice President, City Products Corporation; President, Midwest Dairy division	1947*	5,100	35,000	4,200
R. A. YOUNG Vice President, City Products Corporation; President, T.G.&Y. Stores Co.	1960	13,505	36,000(H)	8,000(D)
WILLIAM F. ZEIDLER Vice President, City Products Corporation	1952	2,515	44,000	14,707

*Mr. Strong did not serve as director for the period 1952-55.

(A) Based upon retirement at normal retirement date and assuming continuance of 1961 compensation.

(B) On February 11, 1960, the Corporation acquired all the assets of Butler Brothers pursuant to an Agreement of Purchase and Sale approved by shareholders of the Corporation at a special meeting held January 25, 1960. Effective February 11, 1960, Mr. Steffey entered into an employment agreement with the Corporation of five years

duration at a salary of $100,000 per year together with deferred compensation upon retirement accruing from January 1, 1959, at the rate of $1,500 for each month of his employment by Butler Brothers or the Corporation.

(C) Under Butler Brothers Retirement Plan (which has been continued by the Corporation) on the basis of 1961 earnings level and retirement at age 65.

(D) Under plan applicable to employees of T. G. & Y. Stores Co., a subsidiary.

(E) Mr. Sinek has an employment agreement with the Corporation which provides that he is to be paid $100,000 per year for ten years effective November 1, 1959. This agreement further provides that in the event of his death $50,000 per year will be payable to his designated beneficiaries for the unexpired portion of the term.

(F) On October 30, 1959, Lehman Brothers, Investment Bankers, of which firm Mr. Manheim is a partner, purchased from the Corporation 20,000 common shares of the Corporation for an aggregate purchase price of $945,000, of which $94,500 was paid in cash and the balance of $850,500 by the purchaser's six per cent promissory note payable in four instalments of $94,500 each on the first days of December, 1960, 1961, 1962 and 1963, and a final instalment of $472,500 on December 1, 1964. This note was prepaid in full during 1961. On June 22, 1961, the Corporation paid an underwriting commission of $28,688 to Lehman Brothers as one of the principal underwriters in the sale by the Corporation of $15,000,000 of 5% Convertible Subordinated Debentures due June 1, 1982. As of February 1, 1962, Lehman Brothers beneficially owned 27,800 common shares of the Corporation.

(G) Charles Aaron, a Director of the Corporation, is senior partner of the law firm, Aaron, Aaron, Schimberg & Hess, General Counsel of the Corporation, which during the year ended December 31, 1961 received the amount of $48,400 for legal services rendered the Corporation.

(H) Coincident with the acquisition of all the assets of Butler Brothers, the Corporation assumed the liability of that corporation with respect to $2,930,000 of private convertible notes by the issuance of new notes and the payment of cash for the release of the right to convert said notes into common shares. In connection with this transaction the Corporation issued to Mr. Young and related family interests new notes in the aggregate amount of $1,193,188 and paid to Mr. Young and related family interests the sum of $310,250 for the release of such conversion rights. Said new notes were prepaid by the Corporation in June of 1961.

(I) Includes 16,200 shares acquired on March 7, 1962 pursuant to the exercise of an option.

The aggregate remuneration received by all officers and directors of the Corporation as a group for the year ended December 31, 1961, was $870,124.

In the event that any nominee above named becomes unavailable (which the management does not anticipate), it is intended that said proxies may be voted for a substitute nominee, who shall be designated by the management of the Corporation, and will be voted for the remaining nominees above named. Subject only to the above-stated condition, the shares represented by said proxies will be voted for the nominees above named.

The statements made above regarding ownership by said nominees of its shares, and regarding the principal occupation or employment of such nominees, are based upon information received by the Corporation from them, respectively, and are believed by it to be accurate.

PROPOSED AMENDMENT OF CODE OF REGULATIONS

There will be submitted for consideration and action thereon at said meeting the following proposal to amend the Code of Regulations of the Corporation:

Strike out in its entirety Article V and insert in lieu thereof a new Article V to read as follows:

ARTICLE V

Certificates for Shares

"The Secretary of the Company may authorize a new certificate for shares to be issued in lieu of any lost, stolen or destroyed certificate, provided he has been furnished with an affidavit or affirmation satisfactory to him as to the ownership of the certificate and the facts relating to such loss, theft or destruction and a perpetual bond of indemnity to hold the Company harmless with corporate surety in a penal sum of at least double the then market value of the shares represented by said certificate."

Under the existing Article V a formal resolution by the Board of Directors is required to authorize the issuance of a common share certificate to replace certificates which have been lost, stolen or destroyed. In many instances this has caused a delay in issuing the replacement certificate. The proposed amendment permits the Secretary of the Corporation to authorize the issuance of a replacement certificate provided he is

furnished with the instruments required by the new Article V. In the opinion of your management the proposed amendment will expedite the issuance of replacement certificates.

The amendment to the Code of Regulations requires the favorable vote of a majority of the outstanding shares of the Corporation.

Management recommends your approval of this amendment.

STOCK OPTIONS

Since January 1, 1961, all officers and directors of the Corporation as a group exercised options with respect to 104,085 common shares of the Corporation (after adjustment for the two for one stock split and 2% stock dividend effected by the Corporation during 1961).

The market value per share on the date of exercise (as reported by the New York Stock Exchange), the option price per share and the dates on which such options were exercised, are as follows:

Date Exercised	*Number of Shares*	*Option Price Per Share*	*Market Value on Date of Exercise*
1/ 4/61	928	$13.51	$21.625
2/ 6/61	19,380(1)	13.54	22.50
2/28/61	2,040	13.54	25.875
3/10/61	204	18.16	24.75
5/31/61	6,120(1)	13.54	29.125
6/ 1/61	4,080	13.54	28.625
6/ 5/61	10,200(2)	13.54	29.50
6/ 5/61	1,020	13.54	29.50
6/ 7/61	408	13.84	29.625
6/ 8/61	10,820	13.54	29.625
6/20/61	20,000(3)	21.65	30.00
6/20/61	4,000(1)	22.53	30.00
7/10/61	408	13.84	30.00
8/31/61	2,040(4)	18.16	27.50
12/ 4/61	2,040	13.54	25.75
12/28/61	117	18.16	25.00
2/ 5/62	4,080	14.30	26.875
3/ 7/62	16,200(3)	21.66	29.375

(1) Exercised by A. O. Steffey
(2) Exercised by J. H. Schwarten
(3) Exercised by William J. Sinek
(4) Exercised by Harry E. Strong

MISCELLANEOUS

The cost of preparing, assembling and mailing this Proxy Statement, the form of proxy and the Notice of Annual Meeting of Shareholders will be borne by the Corporation.

Solicitation of proxies may also be made by personal solicitation by directors, officers and employees of the Corporation, and no additional compensation will be paid to such individuals. The Corporation may reimburse persons holding stock in their names or those of their nominees for their expense in sending proxies and proxy material to principals.

The management knows of no other matters that will come before the meeting. However, if other matters do come before the meeting, the proxies will vote in accordance with their best judgment.

By Order of the Board of Directors

Milton A. Kolar
Secretary

Chicago, Illinois
March 15, 1962

CITY PRODUCTS CORPORATION

EXECUTIVE OFFICES

OFFICE OF THE CHAIRMAN

33 SOUTH CLARK STREET

CHICAGO 3, ILLINOIS

March 15, 1962

To Our Shareholders:

A sixty percent improvement in profits in the fourth quarter reflected improved economic conditions, which began to occur after the middle of the year. This trend was first evidenced in the Company's third quarter profit performance. The early weeks of 1962 indicate a continuation of this direction, and thus 1962 prospects for increased sales and earnings are most encouraging.

Sales and revenues in 1961 were $285,452,323, an increase of 7.7% over the previous year.

Net earnings in the fourth quarter were eighty-eight cents per share, compared with fifty-five cents in 1960. Based on 2,834,000 shares outstanding, earnings for the year 1961 were $1.63 a share, compared with $1.78 a share in 1960. Shares now outstanding reflect the two for one stock split and the 2% special stock dividend.

Cash dividends totaling $1.30 a share were paid in 1961, the sixty-seventh consecutive year of dividends.

The Company's cash and cash equivalent position at December 31, 1961 was $24,358,098, an increase of $10,820,442 during 1961. Working capital was increased by $7,109,396. Capital generated by operations, that is, net earnings plus depreciation, etc., was $3.91 a share in 1961 or more than three times the cash dividend requirements. These funds are available for debt service, for dividends, and for re-investment.

In 1961 pre-opening costs of two major Distribution Centers and forty-four new variety stores, plus costs incidental to the closing of ten stores not considered desirable for future operation, were charged against the Company's earnings. During the year, the Company also disposed of twenty-six properties no longer needed in its operations.

Examination of profit-making capabilities of all properties will continue. Where earning possibilities do not appear to be satisfactory, properties will

be sold or otherwise disposed of. Funds thus made available will be channeled toward opportunities where a suitable return on investment can be projected.

During the past year the Company gave further study to low-gross profit and low-expense types of retail operations, or to what is generally known as the "Discount" type of retail stores. Such studies indicated that these merchandising techniques deserved testing in certain pilot stores. Several pilot stores are now in operation, but thus far your management has concluded that the movement of a large quantity of goods at a low margin will not necessarily produce a satisfactory return on investment.

The Company is also experimenting with the operation of franchised variety stores within food supermarkets, using common cashier checkout stations. Other similar units are in the planning stage. Substantial capital commitments to multiply success will be made in this area, as indicated.

Thus far in 1962 merchandise sales are well ahead of the same period of last year. While many economists forecast good business for the first half of 1962, the last half of each year is more significant in our operations.

Although we expect competition to be more intense, we are optimistic about the Company's prospects and growth possibilities in 1962. Our nationwide network of franchised stores, which took many years and much capital to create, offers us the unique advantage of local or Company ownership. Therefore, we have the diversified ability to serve communities of all sizes. Teamed with our company-owned stores, our franchised stores have lived and grown successfully with competition and, in our opinion, will continue to do so. Since the method of operation is peculiarly suited to widespread geographical development, it is anticipated that our growth in these areas of distribution will continue. In 1962 we intend to explore the possibilities of expanding our merchandising activities outside of the United States. We are hopeful that these efforts will produce increased earnings in 1962.

A report on a year's work would not be complete without sincere appreciation of the loyal efforts of our employes. The support of our customers, suppliers and security owners must also be acknowledged as an integral factor in the continued success of our Company.

Respectfully submitted

A. D. Steffey — *President*

William J. Sinek — *Chairman*

HISTORICAL HIGHLIGHTS OF CONSOLIDATED OPERATIONS AND FINANCIAL POSITION

For the Years Ended December 31

(In thousands)

	1961	1960	1959	1958	1957
OPERATIONS					
Net sales and revenues	$285,452	$264,954	$79,724	$90,193	$101,057
Depreciation, depletion and amortization	6,462	5,964	3,982	3,552	3,855
Operating income	13,013	13,524	5,731	4,802	7,503
Interest expense	3,956	3,854	409	465	489
Provision for Federal income taxes	4,450	4,620	2,432	1,409	3,622
Net income	4,607	5,050	2,890	2,928	3,392
Per share of common stock outstanding at each year end—(Note 1)					
Net income	$1.63	$1.86	$1.14	$1.16	$1.33
Depreciation, depletion and amortization	2.28	2.20	1.58	1.41	1.52
Cash flow	$3.91	$4.06	$2.72	$2.57	$2.85
Cash dividends	1.30	1.27	1.27	1.27	1.23
Stock dividend	2%	—	—	—	—
FINANCIAL POSITION					
Working capital	$54,792	$47,682	$21,874	$13,938	$13,082
Current ratio	3.0	2.8	3.8	2.4	2.2
Property, plant and equipment	54,908	56,750	35,102	40,812	43,305
Long term debt	61,710	60,790	12,399	12,425	13,665
Stockholders' equity	52,506	49,308	47,268	45,134	44,345
Per share—(Note 1)	18.53	18.17	18.68	17.92	17.46
Shares outstanding (Note 1)	2,834,000	2,713,606	2,530,035	2,518,855	2,539,337

NOTES: (1) Adjusted to give effect to the two-for-one stock split in May 1961 and the 2% stock dividend paid June 30, 1961.

(2) As of February 11, 1960 the company acquired the net assets of Butler Brothers. The operations of Butler Brothers and its subsidiaries have been included from approximate dates of acquisition.

BEN FRANKLIN STORES

Influenced by economic factors in 1961, the rate of new store openings slackened somewhat during the year, but our program of upgrading the size of promising stores was continued. Ninety-two new franchised stores were added and 119 were terminated or not renewed. The approximate annual average retail sales of stores added were projected at $125,000. The annual average retail sales of stores whose franchises were terminated or not renewed was approximately $50,000.

The Los Angeles operations of the Division were moved into new modern facilities strategically located in the Los Angeles area and, as announced in interim reports for the year, a new Distribution Center for the Division was opened at Stow, Ohio, suburban to Akron. The full installation costs related to the opening of these new facilities were absorbed from current earnings.

There are now eight distribution points in operation to serve the 50 states.

The Division is experimenting with variety operations integrated with supermarkets. The pilot operation at Ravenna, Ohio, undertaken with Acme food stores, shows real progress and we believe that the operation justifies expansion.

The Ben Franklin Division is also conducting modest experimentation with small discount type stores to determine whether the franchising of such units may be practical. Special emphasis will be placed in 1962 upon a planned program for an improvement of store operations in existing units.

T. G. & Y. STORES

The T. G. & Y. company-owned variety store Division repeated its expansion program from 1960, opening 41 new stores during 1961, with 12 of these in Southern California. As of December 31, 1961, 245 stores were in operation in 13 states extending from Florida to California. The majority of the new stores were located in shopping centers, but 8 of the new stores were located in downtown districts of smaller cities. One older store was remodeled and expanded during 1961, and 8 unprofitable locations were closed.

The expansion program for 1962 calls for the opening of approximately 30 new stores, 6 of which will be located in Southern California, 7 in Greater Kansas City, and 4 in Louisiana. Eight of the older stores are scheduled for remodeling and expansion. The T. G. & Y. group maintained its record growth in sales in the industry, ranking first in ten months of the year.

A new 60,000 ft. warehouse, to serve approximately 50 T. G. & Y. Stores in Louisiana and the Gulf Coast, is scheduled for opening in February, 1962.

SCOTT STORES

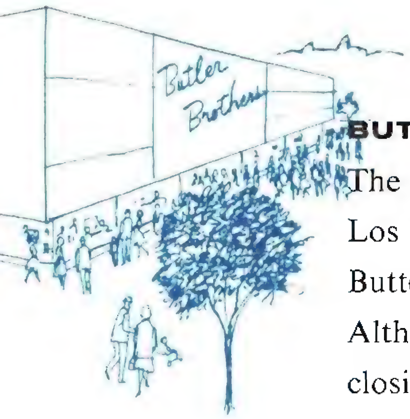
The Scott Division had 81 variety stores operating at December 31, 1961, as compared with 77 reported for the previous year.

Five new stores were opened in shopping centers during 1961. All are modern self-service units located in Ohio, Illinois, Michigan and Pennsylvania. One older, less profitable unit was closed.

1961 saw the continuation of the expansion and modernization program inaugurated more than three years ago. Approximately 50% of total store space of the Scott group is new or has been completely remodeled since the program's inception.

1962 plans call for six new stores and modernization of at least four of the older stores.

Both sales and profit of this Division increased in 1961 and further improvement may be expected in 1962.



BUTLER BROTHERS DEPARTMENT STORES

The Department Store Division continues to operate five stores in suburban Los Angeles and one in the Northgate Shopping Center in Seattle. The Butte, Montana, store was closed in July 1961 upon the expiration of its lease. Although sales in the department store group were adversely affected by the closing of the Butte store, the six remaining department stores in the aggregate showed a modest increase in sales.

HERST-ALLEN

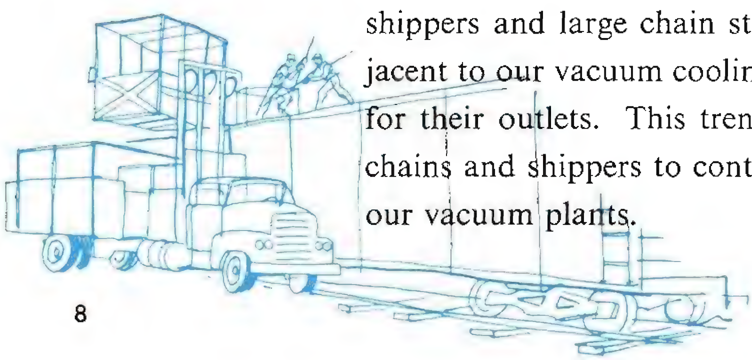
The Herst-Allen Company, a Service-Merchandising Division, headquartered in Chicago, is now servicing more than 1,700 supermarket and food chain units with general merchandise such as housewares, soft goods, toys, and stationery, as well as health and beauty aids. As a specialized merchandising operation, it undertakes responsibility for merchandising, warehousing, and maintenance of individual store displays with emphasis placed on a comprehensive promotional program.

The Herst-Allen Company, serving food markets in all or part of several states in the Midwest, is the largest unit of its kind in the area it serves.

REFRIGERATION AND COLD STORAGE DIVISIONS

Fast schedules and "incentive loadings" are now being put into effect by all of the major railroads throughout the United States. To meet this development, wherever possible, the Company's Car Icing Division has continued to modernize its facilities with mechanical car icing machines and automatic ice plant equipment. "Incentive loading" is the railroad's answer to truck lines competition which, in recent years, has taken shipments of certain perishable commodities from the railroads. The perishable commodity committees of the major railroads and carline companies are very enthusiastic about this new type of loading because it reduces the package cost at the market place. They are hopeful it will increase the railroad share of the shipments of perishable foods.

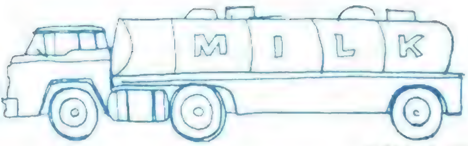
Our Vacuum Cooling plants in Arizona, California, Texas and Florida are contributing to a complete change in the lettuce industry of the United States. Lettuce, formerly iced and shipped in wooden cartons, is now vacuum cooled and shipped in paper cartons. Similar advances have been made in the marketing of such other vegetables as cabbage, celery hearts, radishes and corn. These vegetables are also now being pre-packaged at point of origin, vacuum cooled and shipped to eastern markets. As a result, large shippers and large chain store operators have built pre-packing plants adjacent to our vacuum cooling operations and ship these vegetables packaged for their outlets. This trend is growing and we expect more of the larger chains and shippers to continue building pre-packaged facilities adjacent to our vacuum plants.



The Commercial Ice Division continues to expand the marketing of packaged ice through its 500 coin-operated vending stations and more than 1,500 merchandising units located in supermarkets and service stations in many major cities of the United States. This Division operates primarily in the principal cities of the northeastern United States, Florida and Arizona.

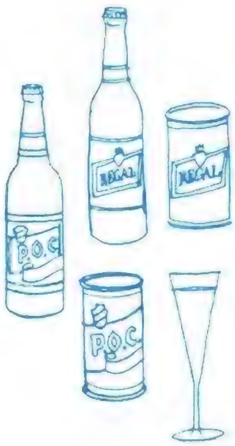
The Cold Storage Division of the Company operates 19 public cold storage facilities, all located in major cities of the east and middle west.

During the past year, this Division continued its efforts to expand the freezer space in many of its warehouses. This expansion has become increasingly necessary because of the popularity of frozen foods which are, to a steadily greater degree, being processed, packed, frozen and distributed from cold storage plants. Additional dock, rail and in-and-out loading operations for distributors' trucks are becoming necessary as more and more food products are sold from our warehouses. Such improvements are part of this Division's program to keep pace with developments in the frozen food industry.



MIDWEST DAIRY DIVISION

Midwest Dairy Division serves the Mississippi Valley area from northern Illinois to southern Louisiana. The products including ice cream, fluid milk, cream, chocolate milk, dairy novelties, cottage cheese, butter, sherbets, etc. have excellent public acceptance in the areas served, and are sold under the brand names of MIDWEST and FORTUNE. The Company has increased efficiency in the Dairy division through modernization and consolidation.



BREWERIES

The operation of our Brewery Division continues in Cleveland, Ohio, and New Orleans, Louisiana, where the Company owns and operates modern breweries which are in excellent physical condition. Our beer is sold under the brand names of "P.O.C. Pilsener" in Ohio, Pennsylvania, New York and Michigan, and "Regal" in Louisiana, Texas and Mississippi.

Both breweries produce a complete line of bottled, canned and draft beer, distributed locally and delivered in Company trucks. Both are well accepted in their local areas.

CONSOLIDATED BALANCE

ASSETS

CURRENT ASSETS:		
Cash		$ 15,403,419
U.S. Treasury Bills, at cost		8,954,679
Receivables, less reserves of $553,304		21,269,556
Merchandise inventories, at the lower of cost or market		34,979,983
Prepaid expenses		2,041,919
Total current assets		$ 82,649,556
INVESTMENTS IN AND ADVANCES TO subsidiaries not consolidated, at equity in underlying book values		1,113,356
PROPERTY, PLANT AND EQUIPMENT, at cost:		
Land	$ 6,381,966	
Buildings on owned and leased land	38,913,061	
Leaseholds and leasehold improvements	16,482,869	
Machinery, fixtures and equipment	69,491,624	
	$131,269,520	
Less—Reserves for depreciation, depletion and amortization, including reserve of $5,000,000 for possible losses on disposition of certain older properties	81,932,595	
	$ 49,336,925	
Excess of cost of investments in subsidiaries over underlying book values at dates of acquisitions	5,571,440	
Net property, plant and equipment		54,908,365
OTHER ASSETS		5,697,785
		$144,369,062

The accompanying notes are

SHEET—DECEMBER 31, 1961

LIABILITIES

CURRENT LIABILITIES:		
Accounts payable		$ 16,604,119
Accrued expenses		7,409,720
Federal income taxes		3,843,902
Total current liabilities		$ 27,857,741
LONG TERM DEBT (Note 1):		
6% promissory notes, due 1980 (with required annual prepayments of $2,500,000 from 1963 to 1970 and $2,600,000 thereafter)	$46,000,000	
5% convertible subordinated debentures, due 1982 (with annual minimum sinking fund payments of $500,000 beginning in 1967) (Note 2)	15,000,000	
5% subordinated notes ($177,500 due annually from 1963 to 1966)	710,000	61,710,000
LONG TERM LEASE COMMITMENTS		Note 3
OTHER LIABILITIES:		
Deferred Federal income taxes	$ 1,875,000	
Minority interests in subsidiary companies	420,001	2,295,001
CAPITAL STOCK AND SURPLUS:		
Common stock, without par value—authorized 5,000,000 shares; issued 2,834,000 shares (Note 2)	$23,233,217	
Capital surplus—no change during year	5,352,266	
Earned surplus (Note 1)	23,920,837	
Total capital stock and surplus		52,506,320
		$144,369,062

ntegral part of this statement.

CONSOLIDATED STATEMENTS OF INCOME, EARNED SURPLUS AND COMMON STOCK

For the Year Ended December 31, 1961

INCOME

NET SALES AND REVENUES		$285,452,323
DEDUCT:		
Cost of sales and expenses	$254,577,496	
Depreciation, depletion and amortization	6,461,879	
Rents	6,565,225	
Taxes, except Federal income taxes	4,834,344	
Interest expense	3,955,903	276,394,847
Income before Federal income taxes		$ 9,057,476
PROVISION FOR FEDERAL INCOME TAXES		4,450,000
NET INCOME		$ 4,607,476
Per share of common stock outstanding at end of year		$1.63

EARNED SURPLUS

BALANCE, December 31, 1960	$ 24,637,099
ADD (Deduct):	
Net income	4,607,476
Dividends paid—	
Cash, $1.30 per share	(3,603,949)
2% stock—54,814 shares at fair market value	(1,719,789)
BALANCE, December 31, 1961 (Note 1)	$ 23,920,837

COMMON STOCK

	(Shares)	
BALANCE, December 31, 1960	1,339,894	$ 19,743,445
Shares issued during the year:		
For cash	85,398	1,769,983
2% stock dividend at fair market value	54,814	1,719,789
Two-for-one stock split, May 8, 1961	1,353,894	—
BALANCE, December 31, 1961 (Note 2)	2,834,000	$ 23,233,217

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENT OF SOURCE AND DISPOSITION OF FUNDS

For the Year Ended December 31, 1961

Source:	
Net income	$ 4,607,476
Depreciation, depletion and amortization charged to income	6,461,879
Proceeds from sale of unissued ($1,769,983) and treasury ($418,040) shares to officers and employees under stock options and to Ben Franklin franchise holders	2,188,023
Provision for deferred Federal income taxes	425,000
Issuance of convertible subordinated debentures	15,000,000
	$28,682,378
Disposition:	
Dividends paid in cash	$ 3,603,949
Additions to property, plant and equipment, net	3,550,434
Other	338,407
Retirement of subordinated long term debt	14,080,192
Increase in working capital	7,109,396
	$28,682,378

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Restrictions on Dividends, etc.:

Under the restrictive clauses contained in the long term debt agreements, earned surplus of $6,510,768 is available as of December 31, 1961 for cash dividends and the payment of the 5% convertible subordinated debentures in excess of sinking fund requirements, and $8,888,654 (including the $6,510,768 mentioned above) is available for the purchase of treasury stock.

2. Common Shares Reserved:

Number of shares and per share amounts have been adjusted for the 1961 two-for-one stock split and 2% stock dividend.

Prior to December 31, 1960 the company had granted options to certain officers and employees to purchase 450,695 shares of its common stock at prices ranging from $13.51 to $24.02 per share. During 1961 options for 96,916 shares were exercised and options for 915 shares were relinquished. At December 31, 1961, options to purchase 352,864 shares were outstanding, of which options for 267,184 were exercisable and options for the balance will become exercisable during various periods through 1965. In addition, under the company's 1957 Employee's Incentive Stock Option Plan, 58,752 shares are reserved for possible future options.

The company has also reserved 468,750 shares of common stock for conversion of the subordinated debentures at $32 per share.

3. Long Term Lease Commitments:

The company and its subsidiaries were directly obligated at December 31, 1961 under 378 leases expiring after 1964 involving minimum annual rentals of approximately $4,600,000. In addition, the companies are contingently liable under 410 leases which have been assigned or sublet with minimum annual rentals of approximately $2,800,000 and have signed 80 leases, under which minimum annual rentals of approximately $700,000 will be payable when properties covered by such leases are ready for occupancy.

OPINION OF
INDEPENDENT PUBLIC ACCOUNTANTS

To the Shareholders, City Products Corporation:

We have examined the consolidated balance sheet of City Products Corporation (an Ohio corporation) and consolidated subsidiaries as of December 31, 1961, and the related statements of income, earned surplus, common stock, and source and disposition of funds for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated balance sheet and statements of income, earned surplus, common stock, and source and disposition of funds present fairly the financial position of City Products Corporation and consolidated subsidiaries as of December 31, 1961, and the results of their operations for the year then ended, and were prepared in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Arthur Andersen & Co.

Chicago, Illinois
February 15, 1962

MERCHANDISE DIVISIONS

GENERAL AND BUYING OFFICES

BEN FRANKLIN AND SCOTT STORES

Des Plaines, Illinois . . . . Wolf Road at Oakton Street

BUTLER BROTHERS DEPARTMENT STORES

Los Angeles, California . . . . 3030 South Atlantic Boulevard

BEN FRANKLIN REGIONAL OFFICES

Des Plaines, Illinois . . . . Wolf Road at Oakton Street

Baltimore, Maryland . . . . 1100 Wicomico Street

Minneapolis, Minnesota . . . . First Avenue North & Sixth Street

Dallas, Texas . . . . 3030 Glenfield Avenue

North Kansas City, Missouri . . . . 2600 Terry Avenue

Memphis, Tennessee . . . . 4185 Steele Road

Los Angeles, California . . . . 3030 So. Atlantic Blvd.

Stow, Ohio . . . . 1365 Commerce Drive

T G & Y GENERAL AND BUYING OFFICES

Oklahoma City, Oklahoma . . . . 3815 North Santa Fe Avenue

REGIONAL OFFICES

Los Angeles, California . . . . 3030 South Atlantic Boulevard

Shreveport, Louisiana . . . . 470 W. 61st Street

THE HERST-ALLEN CO. GENERAL AND BUYING OFFICES

Chicago, Illinois . . . . 1901 West Carroll Avenue

STORE LOCATIONS BY STATES (As of December 31, 1961)

BEN FRANKLIN STORES (Franchised)

Alabama	31	Montana	29
Alaska	5	Nebraska	48
Arizona	12	New Hampshire	5
Arkansas	56	New Jersey	22
California	58	New Mexico	15
Colorado	37	New York	49
Connecticut	9	North Carolina	29
Delaware	2	North Dakota	27
Florida	33	Ohio	77
Georgia	14	Oklahoma	65
Hawaii	12	Oregon	15
Idaho	12	Pennsylvania	57
Illinois	242	Rhode Island	3
Indiana	65	South Carolina	6
Iowa	96	South Dakota	37
Kansas	80	Tennessee	66
Kentucky	67	Texas	166
Louisiana	33	Utah	10
Maine	12	Vermont	13
Maryland	27	Virginia	61
Massachusetts	11	Washington	18
Michigan	97	West Virginia	32
Minnesota	142	Wisconsin	131
Mississippi	70	Wyoming	17
Missouri	157	Washington, D.C.	2

T G & Y STORES (Company-owned)

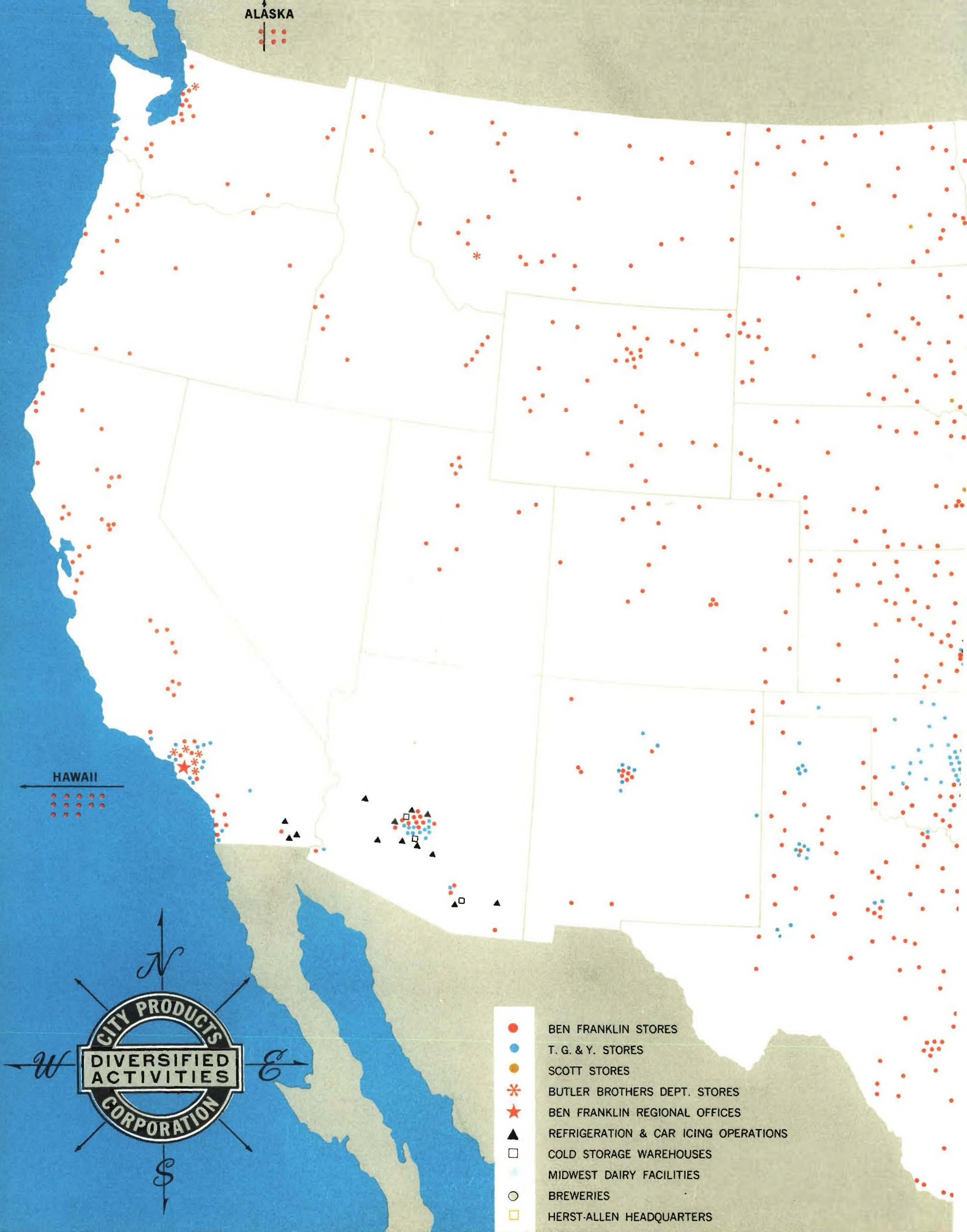
Alabama	6	Mississippi	4
Arizona	13	Missouri	22
Arkansas	5	New Mexico	9
California	15	Oklahoma	75
Florida	1	Tennessee	8
Kansas	16	Texas	37
Louisiana	34		

SCOTT STORES (Company-owned)

Alabama	1	Missouri	5
Arkansas	5	Nebraska	1
Illinois	18	New Jersey	2
Indiana	5	North Dakota	2
Iowa	3	Ohio	19
Kansas	2	Pennsylvania	1
Kentucky	4	South Dakota	1
Michigan	7	Tennessee	1
Minnesota	3	Virginia	1

BUTLER BROTHERS DEPARTMENT STORES (Company-owned)

California	5	Washington	1


ALASKA
HAWAII
CITY PRODUCTS
DIVERSIFIED ACTIVITIES
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BEN FRANKLIN STORES
T. G. & Y. STORES
SCOTT STORES
BUTLER BROTHERS DEPT. STORES
BEN FRANKLIN REGIONAL OFFICES
REFRIGERATION & CAR ICING OPERATIONS
COLD STORAGE WAREHOUSES
MIDWEST DAIRY FACILITIES
BREWERIES
HERST-ALLEN HEADQUARTERS